

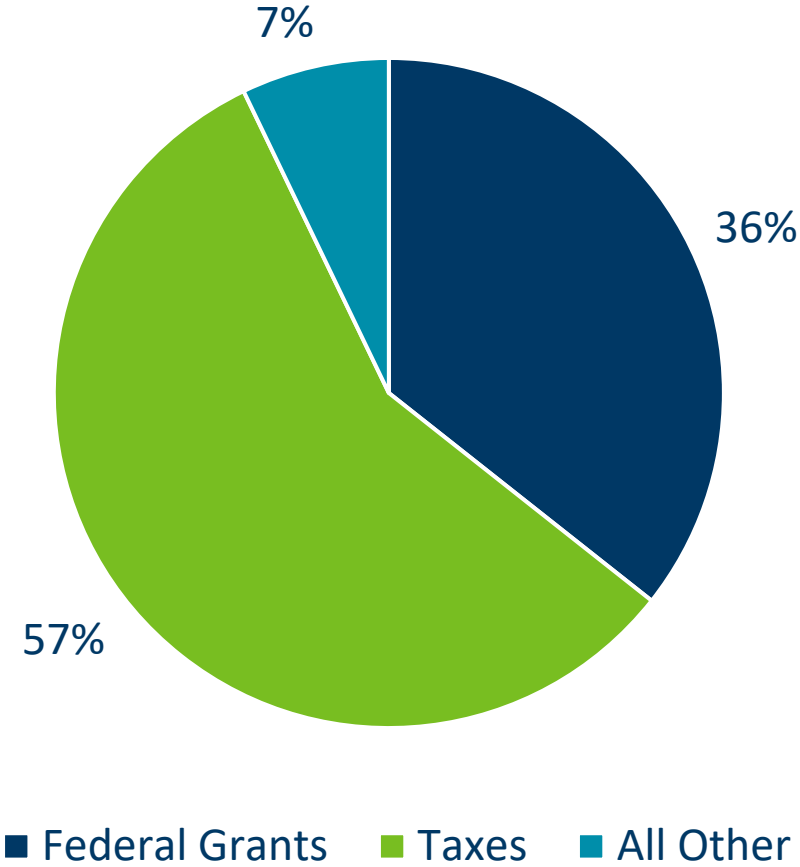


## February 2026 Federal Funding Update

Ahna Minge, State Budget Director

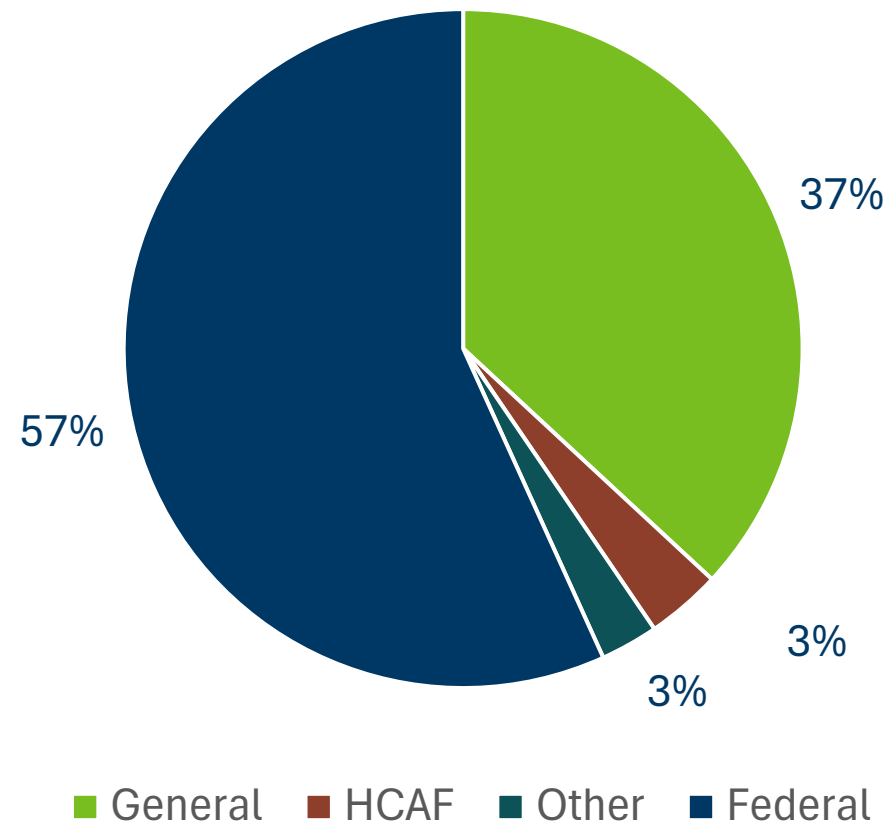
# Federal Funds Comprise One-Third of State Resources

FY 2026-27 Total Revenues: \$133 Billion



# Over Half of HHS Spending Comes from Federal Sources

FY 2026-27 Total Spending: \$69 Billion



# Federal Spending Supporting Entitlement Programs

FY 2026 Federal Funding Supporting State  
Forecast Programs



- \$15.3 billion (65%) of 2025 federal awards support state entitlement spending
- A loss of federal funding will result in increased costs for the state government to provide services required under state law
- Most of these entitlements are in Health and Human Services and Education

# Reconciliation: H.R. 1

- On July 4, 2025, President Trump signed into law HR1, which will significantly impact tax, health care, nutrition, and energy policy, among other areas.
- At the time of passage, the Congressional Budget Office estimated the bill will cost \$3.4 trillion from FFY 2025-2034, with \$4.5 trillion in net tax cuts offset by \$1.1 trillion in net spending reductions.
- Since the passage of the law, state agencies have been analyzing impacts of the law to Minnesota and federally funded programs.
- Current estimates will be refined over time as additional guidance is received.

# HR 1 Impacts: Health Care



## Impacts on eligibility

*Examples:*

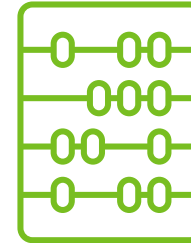
- *Work reporting requirements for adults without children*
- *Changes to eligibility for legal non-citizens*



## Impacts on providers

*Example:*

- *Limits on retroactive coverage*
- *Limits on directed payments*



## Impacts on financial stability

*Examples:*

- *Limits on provider taxes*
- *Imposes state penalties for eligibility errors*

# HR1 Impacts: Nutrition Assistance



Impacts food security for  
440,000 SNAP  
participants through  
benefits and eligibility



\$145 million per year in  
lost federal funding for  
SNAP administration and  
benefits



Effective between  
October 1, 2025 and  
October 1, 2027

# Ramifications of HR1 for State Budget



Automatic state budget impact



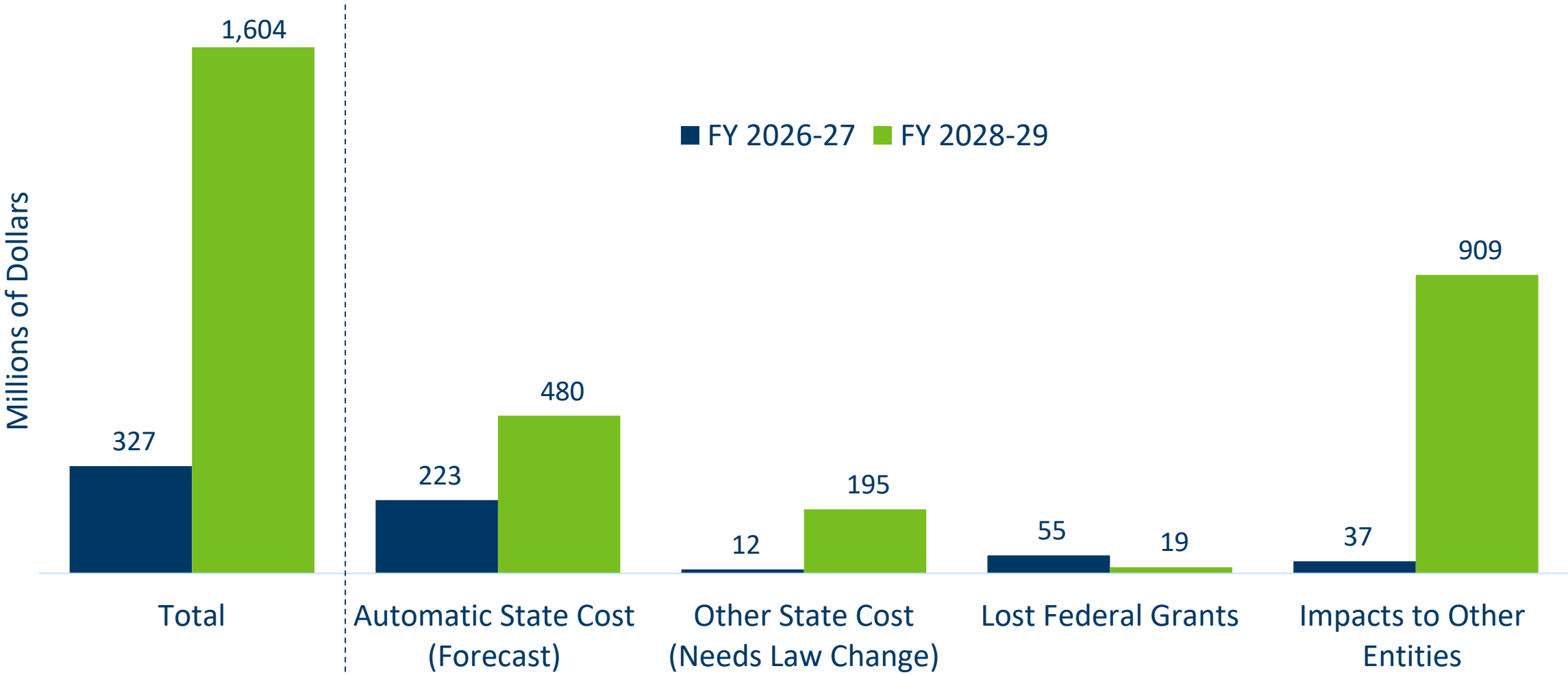
Resources to make required changes



Funding pressures to maintain services

# Fiscal Estimates of Lost Federal Funding to State-Administered Programs from HR1

(Lost federal funds in millions of dollars)



# Recent Public Health Terminations

- Last week, the Minnesota Department of Health received notice of termination of two CDC grants and intent to cancel three more this week.
- The largest of these grants is the Public Health Infrastructure Grant, a \$65 million award.
- These terminations would cut local public health, tribal health, funds to monitor and prevent HIV and STD infections, and funding for employees at MDH.
- On February 12, a multistate lawsuit resulted in a 14-day temporary restraining order pausing terminations, which was extended this Wednesday to March 12.

# Recent Social Services Disruptions

- The Administration for Children and Families (ACF) placed several grant programs under “Temporary Administrative Review” earlier this year.
- A preliminary injunction is currently in place, preventing the federal government from withholding funds.

Federal Grant	State Use	FY 2026 (remaining)	FY 2027	Automatic GF Impact
Child Care Development Fund	MFIP Child Care Assistance Program	\$33 million	\$123 million	Yes
	Basic Sliding Fee, Grants, Admin	\$30 million	\$166 million	No
TANF Block Grant	Minnesota Family Investment Program	\$52 million	\$127 million	Yes
	Grants and Program Administration	\$78 million	\$119 million	No
Social Services Block Grant	Grants and Program Administration	\$19 million	\$32 million	No

# Threatened Reduction: CMS Letter

- On January 6, CMS indicated they intend to withhold \$515 million per quarter in future federal funding, their estimate of the federal share of 14 high risk services.
  - The State does not know when the federal government will begin withholding and when it will stop.
  - This federal funding may be returned once the federal government is satisfied with the corrective action plan and DHS demonstrates that the claims are valid.
  - DHS has submitted an administrative appeal, which is currently pending.
- CMS indicated it will also undertake a review of recent claims already reimbursed, which may result in a deferral of additional federal funds. The scope, timing, and resolution of the review is unknown.

# Impact Relative to Current Forecast

- For most federal-state funded forecast programs, reductions in federal funding trigger increases in state spending.
- Losses for non-forecast programs create losses in services, creating additional budget pressures, but do not automatically increase state spending.
- As of the November 2025 forecast, the general fund has a projected balance of \$2.465 billion this biennium, but a negative balance of \$2.96 billion in the next.
- Due to uncertainty around how much money we will lose and when it will happen, we cannot say with precision how losses will be managed.
  - Federal funding losses for forecast programs above \$2.465B this biennium would require near term action.
  - Any reduction will worsen FY 2028-29 shortfall.

Ahna Minge  
ahna.minge@state.mn.us